Platinum Unhedged Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	SEP 2016	JUN 2016	SEP 2015
North America	29%	29%	24%
Asia	27%	28%	31%
Europe	22%	24%	26%
Japan	9%	8%	10%
Russia	3%	3%	2%
Cash	10%	8%	6%

Source: Platinum. Refer to note 3, page 4.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Carnival Corporation	USA	Consumer Disc	3.2%
Applus Services SA	Spain	Industrials	3.2%
PayPal Holdings Inc	USA	IT	3.2%
Lixil Group	Japan	Industrials	3.2%
PICC Property & Casualty Co	China Ex PRC	Financials	3.2%
IHS Markit Ltd	USA	Industrials	3.1%
Level 3 Communications	USA	Telecom	3.0%
Cisco Systems Inc	USA	IT	3.0%
Raiffeisen Bank International	Austria	Financials	2.9%
Alphabet Inc C Class	USA	IT	2.9%

Source: Platinum. Refer to note 4, page 4.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposures, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

Performance

(compound pa, to 30 September 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund	9%	3%	10%	14%	10%
MSCI AC World Index	2%	3%	12%	16%	6%

Source: Platinum and MSCI. Refer to note 1, page 4.

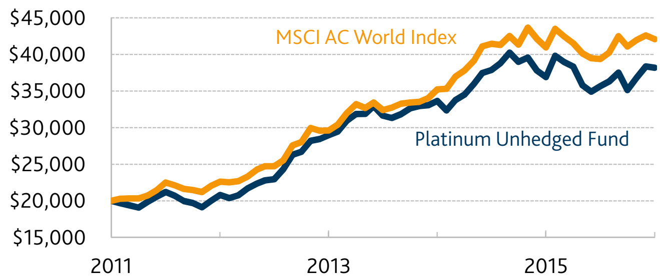
In the September quarter global markets rebounded from the lows following the British exit vote in late June. Measured in local currencies, the strongest moves were seen in the Asian region, led by Hong Kong (+12%) and Japan (+7%), followed by Europe (+6%) and the US (+4%).

Part of this rebound has been driven by better than expected economic performance in the UK, Europe and China.

The market had predicted that the UK would enter a sharp recession after the Brexit vote, and that this would have a knock-on effect in the Eurozone. While it is early days, lead indicators such as credit card spending, retail sales and job

Value of $20,000 Invested Over Five Years

30 September 2011 to 30 September 2016



Source: Platinum and MSCI. Refer to note 2, page 4.

creation in Britain have held up very well, and the situation is similar in Europe. For now, the cushion of the weaker Pound and lower interest rates has offset the hit to business confidence.

The other area of surprise to many is the strength in the Chinese economy. Retail sales continue to grow at 10% per annum, house prices across the 100 largest cities are up 13%, and wage growth is 3%. The improvement is also reflected in the heavy side of the economy, with electricity consumption (+9%), rail freight carried (+1% after three years of decline) and heavy duty truck orders (+30%) all starting to grow again. This does not paint a picture of an economy in recession, and highlights the disconnect between the negative perception around China and the actual levels of underlying activity which remain solid.

Over the past quarter the Fund returned +8.7% versus 2.5% for the Index. The rapid recovery of the losses felt after the Brexit vote has been a welcome outcome, and the recent half-year corporate reporting season provided evidence that the thesis around many of our holdings is playing out. The major contributors to this quarter's performance are:

- **Banks** – As the panic around Brexit has calmed, the majority of our bank holdings have risen between 20% and 40% from the lows. As we mentioned in our last Quarterly Report, we were adding to our bank holdings during the heavy falls and this has been a profitable move.
- **China** – The stand-outs were our holdings in Sina (majority owner Weibo, the Twitter of China) and Weichai Power (maker of heavy duty truck engines). Sina's share price rose 51% after showing great progress in the monetisation of its Weibo social media platform. Weichai rose 31% on the aforementioned rebound in heavy duty truck orders in China.
- **Japan** – We saw strong price moves in Lixil (24%), Panasonic (20%) and Rohm (29%). As detailed in the June Quarterly Report, the size of the sell-off in each name post Brexit had seemed excessive, and better than expected results provided the catalyst for the rebound.
- **US Tech** – The big gainer during the quarter was our holding in eBay which rose 39%. This was in response to evidence that management's efforts to improve the shopping experience on the core eBay marketplace (via better cataloguing and presentation of the millions of listings) were gaining traction.

For the nine months year-to–date, the Fund returned -0.4% versus the Index at 1.3%.

Commentary and Changes to the Portfolio

The major new addition to the portfolio over the quarter was **China Resources Gas (CRG)**. CRG is a 'city gas' distributor, meaning that they own the last mile gas pipelines that connect a city's residential and industrial customers to its upstream gas supply networks.

CRG's primary function is to lay pipe to connect new customers and sell gas. The gas sales are done on a pass-through basis, with the dollar margin allowed to be earned by CRG fixed by the local regulator. As the pass-through mechanism removes much of the commodity price risk, the primary growth driver for CRG is increased gas consumption and the ability to expand the network to connect new customers.

On the prospects for increased gas consumption, natural gas currently accounts for 6% of China's energy consumption, significantly lower than the 24% world average. Shifting to piped natural gas is in the interest of most stakeholders. It is cheaper, safer and more convenient for residential and commercial customers than bottled LPG, and given China's air pollution problems, there is an environmental push to promote 'coal to gas' conversions in the industrial sector. With ample domestic gas supply and new gas purchase deals with Russia, the government has made it clear it wants to increase the use of gas in its energy mix over the long term, and city gas networks are key partners in making this happen.

In addition to the solid demand outlook, there is also considerable scope for CRG to expand its networks. City gas pipelines are a natural monopoly, and once an operator gets density in a district it gains a cost advantage in connecting up neighbouring towns. This ability to expand the networks provides a long runway of growth, with CRG having only connected 45% of the potential customers in its natural catchment areas today. Also, CRG has been successful in winning the bulk of the new tenders to pipe major cities, with their recent wins in Qingdao and Dalian bringing them an additional customer base of six million people.

The concerns that gave us the opportunity to build a position in the company revolved around regulation and headwinds to gas consumption volumes. On regulation, the concern arose from changes to the dollar margin that CRG would be allowed to earn on gas supplied to different types of customers. This has since been resolved without issue, in keeping with the regulators' long-term record of very fair treatment of the city gas operators. On volumes, the fears were about the slowdown in the Chinese economy and the effect this would have on industrial gas demand, and the fact that the collapse in the oil price has made gas more expensive at the margin for some users (prompting some switch back). Whilst having an effect in the short-term, on a longer term basis this should represent a mere blip on the gas demand story.

CRG's business is growing at roughly 15%, and the combination of consumption and connection growth should allow it to continue at this pace for some time. The company has little debt and the management team is committed to returning excess free cash flow to shareholders, having upped this year's interim dividend by 50%. Purchased at a starting valuation of 15x earnings, CRG looks a very reasonable investment, especially when compared to other 'growth utilities' worldwide.

Outlook

One gets the sense that investors are still fairly pessimistic when considering investments outside of the US. This is interesting when we look at the performance of the respective economies year to date. The data from China has been much stronger than expected, the recovery in Europe has remained on track, whilst it is actually the US where signs of weakness have started to emerge.

What is weaker in the US? From a high level view, US nominal GDP growth has now fallen to 2.5%, slower than Europe, and well below the 4% average seen for the last five years. More importantly, alongside this some of the leading indicators around US employment are softening.

Over the past 40 years the number of temporary employees ('temps') employed in the US workforce has been a remarkably accurate lead indicator of contractions in the US economy. By their nature, companies use temps to handle excess workload, and in the expansion phase you tend to see consistent growth in the number of temps employed. However, in a slowdown, temps are the first to be cut, and in past recessions temp employment has first slowed to zero growth and then started contracting six months ahead of cuts in the number of permanent employees.

The absolute number of temps employed in the US has been flat for nine months. These trends are echoed by the major listed staffing companies (Manpower, Adecco, Randstad, and Robert Half) which have seen the growth in their US operations slow dramatically and start to turn negative. With September's temp employment data looking a little stronger, it is still premature to ring the warning bell. But given we are now entering the eighth year of economic expansion in the US (i.e. by historical comparison, this cycle is long in the tooth) and starting valuations for US stocks are high, we are watching employment trends *very closely*.

Notwithstanding our caution on the US (which explains our decision to hold cash close to the Fund's 10% cap), we are still finding good opportunities to invest, with many of our incremental ideas coming from Japan and Hong Kong, markets that clearly stand out as cheap relative to their history.

Notes

1. The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specified period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. You should be aware that historical performance is not a reliable indicator of future performance. Due to the volatility in the underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

   The inception dates for each Fund are as follows:

   Platinum International Fund: 30 April 1995

   Platinum Unhedged Fund: 28 January 2005

   Platinum Asia Fund: 4 March 2003

   Platinum European Fund: 30 June 1998

   Platinum Japan Fund: 30 June 1998

   Platinum International Brands Fund: 18 May 2000

   Platinum International Health Care Fund: 10 November 2003

   Platinum International Technology Fund: 18 May 2000

   (NB: The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist.)

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over the specified five year period relative to the relevant benchmark index (in A$) as per below (the "Index"):

   Platinum International Fund - MSCI All Country World Net Index

   Platinum Unhedged Fund - MSCI All Country World Net Index

   Platinum Asia Fund - MSCI All Country Asia ex Japan Net Index

   Platinum European Fund - MSCI All Country Europe Net Index

   Platinum Japan Fund - MSCI Japan Net Index

   Platinum International Brands Fund - MSCI All Country World Net Index

   Platinum International Health Care Fund - MSCI All Country World Health Care Net Index

   Platinum International Technology Fund - MSCI All Country World Information Technology Net Index

   The investment returns are calculated using the relevant Fund's unit price. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), pre-tax and assume the reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

3. Regional exposures (i.e. the positions listed other than "cash" and "shorts") represent any and all physical holdings, long derivatives (stock and index), and fixed income securities.

4. The table shows the relevant Fund's top ten long stock positions. Long derivative exposures are included. However, short derivative exposures are not.

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